

LEM

Decision No. 16944.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 THE GOLDEN GATE FERRY COMPANY,)
 a corporation, for (1) authority to)
 issue and sell stock and bonds, and)
 (2) a certificate of public conven-)
 ience and necessity; and of Golden)
 Gate Ferry Company, a corporation,)
 for authority to purchase and ac-)
 quire stock and bonds of The Golden)
 Gate Ferry Company.)

ORIGINAL

Application No. 12796

McCatchen, Olney, Mannon and Greene,
by A. C. Greene and J. D. Adams, for applicant.

BY THE COMMISSION:

OPINION

The Railroad Commission is asked to make an order:

1. Authorizing The Golden Gate Ferry Company (hereinafter sometimes referred to as the new company) to issue to Golden Gate Ferry Company (hereinafter sometimes referred to as the old company) \$600,000. of Series "A" first mortgage seven percent bonds due June 1, 1941, and \$999,000. par value of common stock in payment for the properties of the old company.

2. Authorizing The Golden Gate Ferry Company to issue and sell at 95 percent of their face value and accrued interest, \$375,000. of Series "A" first mortgage seven percent bonds due June 1, 1941, for the purpose of constructing a new ferry boat and/or refund obligations on account of the construction of said ferry boat.

3. Authorizing The Golden Gate Ferry Company to issue to each of ten persons (now or heretofore its directors) one share

each of its capital stock.

4. Authorizing Golden Gate Ferry Company to purchase and acquire the stock and bonds of The Golden Gate Ferry Company.

5. Declaring that public convenience and necessity require and will require The Golden Gate Ferry Company to operate vessels as a public ferry between the City and County of San Francisco and the Town of Sausalito.

The Golden Gate Ferry Company, the new company, was organized under the laws of California on or about April 15, 1926. The company has an authorized stock issue of \$2,000,000. divided into 20,000 shares of \$100. each.

Golden Gate Ferry Company, the old company, was organized under the laws of California during 1920 and is engaged in the operation of a public ferry between the City and County of San Francisco (foot of Hyde Street) and the Town of Sausalito. The old company has an authorized stock issue of \$1,000,000., all of which is outstanding. The company as of March 31, 1926, reports no bonded indebtedness and no notes payable.

In its Exhibit I the old company reports the cost of its properties and equipment as follows:--

Organization and franchises	\$26,749.51
Line equipment	1,077,207.07
S.S. Golden City	\$217,612.29
M.S. Golden Gate	370,127.32
M.S. Golden West	360,485.82
S.S. Harry Spear	128,983.64
Wharves, docks and terminals	243,164.20
Wharf equipment	11,969.48
Water front and terminal grounds	69,941.55
General and local office buildings	22,896.30
Office furniture and equipment	9,815.94
Miscellaneous	<u>31,935.82</u>
Total property and equipment(exclusive of M.S. Golden State)	<u>\$1,493,679.87</u>

It is reported that the \$1,493,679.87 is the cost, as reported in the Commission's Exhibit No. 2 in Case No. 2221. The books of the company show the cost of the same properties to be \$1,497,501.97.

Other assets of the old company, and its liabilities as of March 31, 1926 are reported as follows:-

Cash on hand and in bank		\$15,267.92
Mt. Tamalpais and Ridgecrest Highway		1,000.00
Insurance claims receivable		8,544.75
Accounts receivable		5,568.09
Materials and supplies		7,782.39
Prepaid rents		85.00
Unexpired insurance		18,903.68
Prepaid taxes		1,770.33
Suspense		13,492.08
Temporary advance payments on M.S. Golden State (to be refunded)		145,367.35
	Total other assets	<u>\$217,780.67</u>
LESS current liabilities-		
Working and accrued liabilities	\$67,573.43	
Accrued taxes	27,867.71	
Rents prepaid	80.00	
	Total liabilities	<u>95,521.14</u>
	Net other assets over liabilities	\$122,260.45

The liabilities of the old company will be assumed by the new company.

For the purpose of this proceeding we will use the cost (\$1,497,501.97) of the properties, as shown by the old company's books. Adding to the \$1,497,501.97 the net (\$122,260.45) cost of other assets, makes a total of \$1,619,762.42.

The old company has under construction a new boat, the M.S. Golden State. The cost of this boat is estimated at \$359,845.06, segregated as follows:-

Hull and superstructure	\$175,500.00
Engines	86,500.00
Electrical equipment plus freight	52,549.06
Machinery	24,996.00
Extras for furniture and fixtures	10,000.00
Interest during construction	10,050.00
	Total <u>\$359,845.06</u>

Applicant's Exhibit I shows that as of March 31, 1926, the sum of \$145,367.35 had been expended on the new boat. The \$145,367.35 was taken into consideration in determining the old company's net other assets. Deducting the \$145,367.35 from the total estimated cost of \$359,845.06 leaves a balance of \$214,477.71 to be expended for the new boat after March 31, 1926. Adding the \$214,477.71 to the \$1,619,762.42, total cost as of March 31, 1926, makes total of \$1,834,240.13. To acquire assets costing \$1,834,240.13 the new company proposes to issue \$999,000. of stock and \$975,000. of bonds, or a total stock and bonds of \$1,974,000.

The financial statement of the old company shows that as of March 31, 1926 it had a reserve for accrued depreciation of \$233,514.97. The moneys which such reserve represent have been invested in its properties and business, and go to make up the total of \$1,834,240.13 referred to above. Obviously, the properties of the old company are not all new. The obligation to replace such properties will be assumed by the new company and must eventually be financed by the new company. We therefore believe that \$233,514.97, said to represent the accrued depreciation on the properties should be deducted from the \$1,834,240.13. Making this deduction results in a net figure of \$1,600,725.16.

The new company has filed with the Commission a copy of its proposed mortgage or deed of trust. This mortgage is to be executed to secure the payment of an authorized bond issue of \$5,000,000. It provides that the bonds may be issued in series from time to time as the Board of Directors of the company shall determine. Each series of bonds shall be distinguished from every other series thereof by appropriate designation on the face thereof, selected by the Board of Directors. All bonds of the same series shall be in the same form, except the variation necessary to express their numbers and denominations. The bonds of any series may, if the Board of Directors shall so determine upon authorizing the original issuance of such series, differ from the bonds of any other series in respect to date,

maturity, rate of interest, and terms of redemption (if any) and also in such other respects as the Board of Directors of the company may prescribe, subject only to the restrictions and conditions contained in the trust indenture. The mortgage provides for a series of bonds to be known as Series "A", which series is to be of the aggregate principal amount of \$975,000. Series "A" bonds are to be dated June 1, 1926 and mature June 1, 1941, and shall bear interest at the rate of seven percent per annum payable semi-annually on the first of June and December of each year.

Series "A" bonds may at the option of the company be redeemed on any interest payment date upon the payment of the principal thereof and interest to the date of redemption, together with a premium equal to one half of one percent for each year or fraction of year, the particular bonds so redeemed shall then have still to run, such premium not exceeding, however, five percent upon the principal thereof.

It is proposed to use \$600,000.00 of the Series "A" bonds to acquire the properties of the old company and \$375,000.00 to finance the acquisition of the new ferry boat.

The proposed trust indenture obligates the company to pay to the trustee semi-annually on or before the first days of June and December of each year commencing June 1, 1926, and continuing so long as any bonds of Series "A" shall be outstanding, \$58,500.00 for (a) the payment of the installment of interest on such bonds then due and payable, and (b) the remainder thereof as and for a sinking fund payment, to redeem bonds. If further bonds are issued, the semi-annual payment must be increased proportionately. It is expected that the semi-annual payment will be sufficient to redeem the bonds on or before their maturity.

The proposed trust indenture further provides that in the event applicants are permitted to operate an automobile ferry between the City and County of San Francisco and the City of Berkeley, \$1,700,000.00 of additional bonds may be issued to construct piers;

and acquire additional ferry boats. The remainder of the authorized bond issue, to-wit, \$2,325,000.00, may from time to time be certified by the trustee to an amount not exceeding sixty percent of the reasonable cost of purchasing/ or acquiring additional ferry boats and other betterments and improvements in respect to which the company proposes to issue such bonds, provided that the net earnings of the company for twelve consecutive months within the last fourteen calendar months preceding such delivery of bonds, shall have amounted to at least three times the aggregate of the semi-annual service charge, the service charge being the semi-annual payment that the company must make to the trustee for the purpose of paying interest and redeeming bonds.

The proposed mortgage contains several insurance covenants which, according to the record, obligate the new company to pay annual insurance premiums of about \$45,000.00, as compared with annual insurance premiums of approximately \$35,000.00 now paid by the old company.

The old company in reports filed with the Railroad Commission submits its operating revenues and operating expenses as follows:-

ITEM	1924	1925
Operating revenues	\$763,582.00	\$793,937.00
Operating expenses:		
Maintenance	44,630.00	49,387.00
Traffic	8,783.00	10,852.00
Transportation	195,205.00	262,445.00
General	191,710.00	108,087.00
Depreciation	58,572.00	77,925.00
Total	<u>\$498,900.00</u>	<u>\$508,696.00</u>
Operating income	264,682.00	285,240.00
Taxes	38,131.00	42,505.00
Balance	<u>\$226,551.00</u>	<u>\$242,735.00</u>

In view of the reported cost of the properties of the old company, the cost of the new boat, the accrued depreciation on the properties of the old company, the earnings of such company and the sinking fund and insurance provisions of the proposed mortgage of the new company, we are of the opinion that the new company should be permitted to issue at not less than par, \$999,000.00 of stock and \$700,000.00 of Series "A" first mortgage seven percent bonds due June 1, 1941, to

acquire the properties of the old company and finance the construction of the new boat, M-S. Golden State. Of the bonds, \$360,000.00 may be used to finance the construction of the new boat and \$340,000. to pay in part for the properties of the old company.

The proposed mortgage or deed of trust filed in this proceeding on May 29, 1926 should be modified in several respects. The amount of Series "A" bonds to be delivered in part payment for the properties of the old company should be reduced from \$600,000.00 to \$340,000.00 and the amount of bonds to finance the construction of the new boat, M. S. Golden State, should be reduced from \$375,000.00 to \$360,000.00. The remainder of the Series "A" bonds, to-wit \$275,000., may be issued in amounts equal to the actual cost or reasonable value (whichever may be less) of property acquired or constructed subsequent to the execution of the mortgage.

The provisions relating to the issue of \$1,700,000.00 of bonds to finance the installation of a public ferry service between San Francisco and Berkeley should be eliminated and that portion of Section 23, Article two, reading "No additional bonds (other than proposed Berkeley ferry bonds) shall be issued exceeding in aggregate principal amount sixty (60) percent", changed so as to read--

"No additional bonds (other than Series "A" bonds limited to \$975,000.) shall be issued exceeding in aggregate principal amount fifty (50) percent", etc. "

While the Commission is asked to make an order authorizing the old company to acquire stocks and bonds of the new company, it is of record that as soon as practical the old company will be dissolved and its assets distributed. It is expected when such distribution takes place, substantially all of the stocks and bonds which it acquires in payment for its properties will become the property of a holding company. There is filed in this proceeding a copy of what is known as the Stockholders Expansion Plan and Agreement. This agreement shows that

Stockholders of Golden Gate Ferry Company who become parties to the plan will turn in their Golden Gate Ferry Com-

pany stock and receive in exchange therefor either:-

- (a) Six (6) shares of 8 percent preferred stock of the Golden Gate Holding Company, participating to an additional 2 percent., aggregating \$150. in par value, for each share of Golden Gate Ferry Company stock deposited by them:

OR

- (b) \$125. in cash and five (5) shares of common stock of Golden Gate Holding Company, aggregating \$125. in par value, for each share of Golden Gate Ferry Company stock deposited by them".

It should be definitely understood that the Railroad Commission has no control over the offer of the Holding Company, and no jurisdiction over the issue of its stocks and bonds. We will look to the new company for the maintenance of an adequate ferry service, and believe that such company should be financed on a basis so that its securities may find a ready market. It should not be financed with a view of assisting in the financing of its stockholders, be they a holding company or individuals.

The matter of a certificate of public convenience and necessity for the new company, as well as authorizing the new company to execute a mortgage or deed of trust, will be taken care of by a supplemental order or orders in this proceeding.

ORDER

The Golden Gate Ferry Company having applied to the Railroad Commission for permission to issue \$1,000,000.00 of common stock and \$975,000.00 of bonds to acquire the properties of Golden Gate Ferry Company and finance the construction of an additional boat, and Golden Gate Ferry Company having applied to the Railroad Commission for permission to acquire stock and bonds of The Golden Gate Ferry Company, a public hearing having been held before Examiner Fankhauser and the Railroad Commission being of the opinion that

The Golden Gate Ferry Company should be permitted to issue not exceeding \$1,000,000.00 of its common stock and not exceeding \$700,000.00 of its Series "A" First Mortgage Seven Percent bonds due June 1, 1941, for the purposes herein stated, and that the money, property or labor to be procured or paid for by the issue of such stock is reasonably required by said company and that the expenditures herein authorized are not in whole or in part reasonably chargeable to operating expenses or to income, and that this application insofar as it involves the issue of \$275,000.00 of bonds should be dismissed without prejudice.

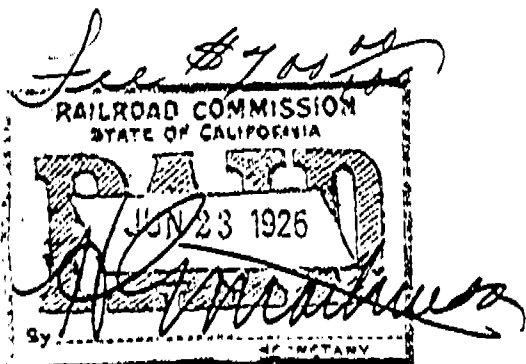
IT IS HEREBY ORDERED as follows:-

1. The Golden Gate Ferry Company may issue and sell on or before October 1, 1926, at not less than par, ten shares (\$1,000. par value) of its common stock for the purpose of qualifying its directors and shall use the proceeds obtained from the sale of such stock for working capital.
2. The Golden Gate Ferry Company may issue, deliver and/or sell on or before October 1, 1926 at not less than par, not exceeding \$999,000.00 of its common stock and not exceeding \$700,000.00 of its Series "A" First Mortgage Seven Percent bonds due June 1, 1941, for the purpose of paying for and acquiring all of the properties of Golden Gate Ferry Company, free and clear of all encumbrances, and finance the acquisition and construction of the new ferry boat M. S. Golden State, provided that of said bonds, \$360,000.00 shall be used to acquire and construct said ferry boat, and \$340,000. to pay in part for the properties of Golden Gate Ferry Company.

3. Golden Gate Ferry Company may acquire and hold the stock of The Golden Gate Ferry Company herein authorized to be issued in part payment for its properties.
4. The authority herein granted to issue bonds will not become effective until The Golden Gate Ferry Company has paid the fee prescribed by Section 57 of the Public Utilities Act, which fee is \$700.00, nor until the Commission has authorized The Golden Gate Ferry Company to execute a mortgage or deed of trust to secure the payment of said bonds. The authority herein granted to issue stock will become effective upon the date hereof.
5. The Golden Gate Ferry Company shall keep such record of the issue, sale and delivery of the stock and bonds herein authorized and of the disposition of the proceeds as will enable it to file on or before the 25th day of each month a verified report, as required by the Railroad Commission's General Order No. 24, which order insofar as applicable, is made a part of this order.
6. This application insofar as it involves the issue of \$275,000. of bonds be, and the same is, hereby dismissed without prejudice.

DATED at San Francisco, California, this 15th day of June,

1926.



H. B. Brundage

C. L. Seaver

Edward L. ...

